Financial statements presentation

1. What is does principle “fair presentation” mean?
   a) Fair presentation requires an entity to disclose comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements.
   b) Fair presentation requires an entity to make an assessment of the entity’s ability to continue its operations in the future.
   c) Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.
   d) Fair presentation requires an entity to present a complete set of financial statements at least annually.

2. What are recognition criteria for an item to be recognized as a current asset?
   a) An entity expects to realize an item, or intends to sell or consume it, in the entity’s normal operating cycle
   b) An entity holds such item primarily for the purpose of trading
   c) An entity expects to realize such an item within twelve months after the reporting date
   d) An entity does not have an unconditional right to defer settlement of such an item for at least twelve months after reporting date.

3. Decide which of the followings are cash and cash equivalents?
   a) cash receipts from the sale of goods and the rendering of services
   b) cash payments to suppliers for goods and services
   c) money market instruments, e.g. T-bills and commercial loans
   d) cash payments or refunds of income tax
   e) demand deposits and demand loans
   f) term deposits and term loans

4. What are the primary objectives of notes to financial statements?
   a) to present information about the basis of preparation of the financial statements and the specific accounting policies used.
   b) to provide information on relationship between entity’s assets, liabilities and equity.
   c) to provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
   d) to present fair value measurement of entity’s revenues and expenses.

Exercise 1: On the basis of the following items from trial balance prepare statement of financial position for the year

Item	CU '000
Building, plant and equipment	500
Depreciation of building, plant and equipment	175
Materials	130
Merchandise	150
Cash	35
Receivables	100
Amortization of receivables due to uncollectibility	5
Company's brand name	45
Short-term bank loan	50
Long-term bank loan	100
Payables	75
Common stocks (issued)	350
Reserves	120
Retained earnings	30
Business result of the current period	55

Exercise 2: For the following items determine the amount of profit of the year, other comprehensive income for the year and total comprehensive income for the year

Item	CU '000
Sale of own products	750
Cost of own products sold	450
Sale of unused equipment	200
Cost of unused equipment sold	175
Sale of securities held for sale	180
Cost of securities held for sale	185
Loss for the year from discontinued operations	25
Corporate income tax for comprehensive income	18
Exchange rate differences from supplies to foreign customers	15
Actuarial gains on defined benefit pension obligations	20
Revaluation of administrative building	12
Corporate income tax for other comprehensive income	3

Exercise 3: Prepare statement of income for the year to 31 April 2017 and statement of financial position as at the date.

The following information has been extracted from the books of Picklette for the year to 31 April 2017:

	Db CU '000	Cr CU '000
Administrative expenses	170	
Interest paid	5	
Called up share capital (ordinary shares of CU1 each)		200
Dividend	6	
Cash in bank and in hand	9	
Income tax (remaining balance from previous year)	10	
Warranty provision		90
Distribution costs	240	
Land and buildings: • At cost (land CU 110, buildings CU 100) • Accumulated depreciation (at 1 May 1617)	 210 	 48
Plant and machinery: • At cost • Accumulated depreciation (at 1 May 1617)	 125 	 75
Retained earnings (at 1 May 1617)		270
10% loan (issued in 1516)		80
Purchases	470	
Sales		1,300
Inventory (at 1 May 1617)	150	
Trade payables		60
Trade receivables	728	
TOTAL	2 123	2 123

Additional information:

1) Inventory at 31 April 2017 was valued at CU250,000.
2) Buildings and plant and machinery are depreciated on a straight-line basis (assuming no residual value) at the following rates:

   - buildings – 5%
   - plant and machinery – 20%

3) There were no purchases or sales of non-current assets during the year to 31 April 2017.
4) The depreciation charges for the year to 31 April 1617 are to be apportioned as follows:

   - Cost of sales – 60%
   - Distribution costs – 20%
   - Administrative costs – 20%

5) Income taxes for the year to 31 April 2017 (at a rate of 30%) are estimated to be CU 135,000.
6) The loan is repayable in five years.

7) The year end provision for warranty claims has been estimated at CU 75,000. Warranty costs are charged to administrative expenses

Exercise 4: Find changes in owner's equity to 31 April 2017 for the entity presented below

Item	CU '000
Total equity at 1 May 2016	
Common stocks	500
Reserves	250
Fond for revaluation	170
Retained earnings	120
Profit of the current period	50

Operations during 2016	CU '000
Creation of reserves	70
Share of current period profit distributed to shareholders	(20)
Revaluation of securities	50
Transfer of the remainder of current period profit to retained earnings	30

Exercise 5: Compile statement of cash flow for entity the presented below under indirect method

Chosen items from statement of financial position

Item	1 May 2016 CU '000	31 April 2017 CU '000
Software		2
Tangible assets		34
Corrections for software		0.4
Corrections for tangible assets		5.6
Material at stock		1.2
Merchandise in shops		10.8
Cash at cash box		2
Cash at bank account	40	12
Receivables from buyers		5.8
Receivables from employees		1.2
Payables		5.4
Deferred income tax		2
Prepaid expense		1
Accrued expense		0.6
Common stocks	40	40
Long-term bank loan		12

Chosen items form statement of comprehensive income

Item	CU '000
Revenues	
Revenues (sale of merchandise)	72
Other revenues	7.4
Interests received	0.6
Expenses	
Cost of sales (merchandise sold)	56
Repairing and maintenance	2
Other services (rent)	1.8
Wage costs	3
Health and social contributions	1
Other costs	1.4
Depreciation and amortization of non-current assets	6
Interests paid	0.8
Corporate income tax	4

Consolidated financial statements

1. Decide in which cases consolidated financial statements of an entity cannot be complied
   a) when the parent entity is itself a subsidiary
   b) when the parent entity is itself a subsidiary and when the ultimate parent entity produces consolidated general purpose financial statements that comply with full IFRSs or with IFRS for SME
   c) when an entity has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year

2. Decide in which cases control is presumed to exist:
   a) when the parent owns, directly or indirectly through subsidiaries, half of the voting power of an entity
   b) when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity
   c) when the parent owns half or less of the voting power of an entity but it has power over more than half of the voting rights by virtue of an agreement with other investors
   d) when the parent owns half or less of the voting power of an entity but it has power to govern the financial and operating policies of the entity under a statute or an agreement
   e) when the parent owns half or less of the voting power of an entity but it has power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body

3. Decide in which order individual procedures which are presented below should take place while compiling consolidated financial statements:

   (i) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;

   (ii) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;

   (iii) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them;

   (iv) measure and present non-controlling interest in the profit or loss of consolidated subsidiaries for the reporting period separately from the interest of the owners of the parent;

Answers:

   a) (i), (ii), (iii), (iv)
   b) (iv), (iii), (ii), (i)
   c) (ii), (i), (iv), (iii)
   d) (iv), (iii), (ii), (i)

4. Decide which statement are true:

a) Intragroup balances and transactions, including income, expenses and dividends, are eliminated only partly.
b) The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date and using uniform accounting policies for like transactions and other events and conditions in similar circumstances.
c) The income and expenses of a subsidiary are excluded from the consolidated financial statements.
d) An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive income.

5. What information should be disclosed in consolidated financial statements?
   a) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power.
   b) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements.
   c) intragroup balances and transactions, including income, expenses and dividends between parent and subsidiary

6. Decide which statements are true:
   a) IFRS for SME requires a parent to present consolidated financial statements.
   b) IFRS for SME requires a parent or a group of subsidiaries to present separate financial statements.
   c) IFRS for SME requires a group of two or more entities to present combined financial statements.

Exercise 1: Compile consolidated statement of financial position for entity the presented below

Parent acquires 100% of subsidiary **Goodwill = …**			
	Parent **CU '000**	**Subsidiary** **CU '000**	**Consolidated statement of financial position**
Non-current tangible assets	750	210	…
Consideration transferred (acquisition cost) by Parent	300	-	…
Goodwill	-	-	…
Current assets	350	70	…
Total assets	**…**	**…**	**…**
Legal capital	1,100	220	…
Retained earnings	300	60	…
Total equity and liabilities	**…**	**…**	**…**

Exercise 2: Compile consolidated statement of financial position and account for goodwill for the entity presented below

Parent acquires 100% of subsidiary **Goodwill = …**			
	Parent **CU '000**	**Subsidiary** **CU '000**	**Consolidated statement of financial position**
Non-current tangible assets	750	210	…
Consideration transferred (acquisition cost) by Parent	300	-	…
Goodwill	-	-	…
Current assets	350	70	…
Total assets	**…**	**…**	**…**
Legal capital	1,100	220	…
Retained earnings	300	60	…

Total equity and liabilities	**...**	**...**	**...**

Exercise 3: Compile consolidated statement of financial position and account for goodwill and controlling interest for the entity presented below

Parent acquires 80% of subsidiary's equity **Goodwill = ...**			
	Parent CU '000	**Subsidiary CU '000**	**Consolidated statement of financial position**
Non-current tangible assets	750	210	...
Consideration transferred (acquisition cost) by Parent	300	-	...
Goodwill	-	-	...
Current assets	350	70	...
Total assets	**...**	**...**	**...**
Legal capital	1,100	220	...
Retained earnings	300	60	...
Non-controlling interest	-	-	...
Total equity and liabilities	**...**	**...**	**...**